

Second Regular Session
Seventy-second General Assembly
STATE OF COLORADO

ENGROSSED

*This Version Includes All Amendments Adopted
on Second Reading in the House of Introduction*

LLS NO. 20-0999.01 Thomas Morris x4218

SENATE BILL 20-150

SENATE SPONSORSHIP

Hansen and Coram,

HOUSE SPONSORSHIP

Arndt,

Senate Committees

Transportation & Energy
Appropriations

House Committees

A BILL FOR AN ACT

101 **CONCERNING ADOPTION OF A RENEWABLE NATURAL GAS STANDARD,**
102 **AND, IN CONNECTION THEREWITH, MAKING AN APPROPRIATION.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://leg.colorado.gov>.)

The bill requires the public utilities commission to adopt by rule, no later than July 31, 2021, renewable natural gas programs for large natural gas utilities (those that have at least 200,000 customer accounts in Colorado) and small natural gas utilities (those that have fewer than 200,000 customer accounts in Colorado). The rules must include reporting requirements and a process for natural gas utilities to fully

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters or bold & italic numbers indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.

SENATE
Amended 2nd Reading
February 27, 2020

recover prudently incurred costs associated with the large and small renewable natural gas programs.

"Renewable natural gas" is defined to mean any of the following products processed to meet pipeline quality standards or transportation fuel-grade requirements:

- ! Biogas that is blended with, or substituted for, geologic natural gas;
- ! Hydrogen gas derived from renewable energy sources; or
- ! Methane gas derived from any combination of biogas; hydrogen gas or carbon oxides derived from renewable energy sources; waste carbon dioxide; coalbed methane resulting from human activity; naturally occurring coalbed deposits; a municipal solid waste landfill; waste tire or municipal solid waste pyrolysis; or biogas recovery from manure management systems and anaerobic digesters.

If a large natural gas utility's total incremental annual cost to meet the targets of the large renewable natural gas program exceeds 5% of the large natural gas utility's total revenue requirement for a particular year, the large natural gas utility shall not make additional qualified investments under the large renewable natural gas program for that year without approval from the commission. The bill establishes the following portfolio targets for the percentage of gas purchased by large natural gas utilities that is renewable natural gas:

- ! By January 1, 2025, at least 5% must be renewable natural gas;
- ! By January 1, 2030, at least 10% must be renewable natural gas; and
- ! On and after January 1, 2035, at least 15% must be renewable natural gas.

Small natural gas utilities may opt in to the small renewable natural gas program as established by the commission by rule. The rule must include a rate cap limiting the small natural gas utility's costs of procuring renewable natural gas from third parties and qualified investments in renewable natural gas infrastructure.

1 *Be it enacted by the General Assembly of the State of Colorado:*

2 **SECTION 1.** In Colorado Revised Statutes, **add** 40-2-124.5 as
3 follows:

4 **40-2-124.5. Renewable natural gas resource standard -**
5 **legislative declaration - definitions - rules.** (1) THE GENERAL

1 ASSEMBLY HEREBY:

2 (a) FINDS THAT RENEWABLE NATURAL GAS PROVIDES BENEFITS TO
3 NATURAL GAS UTILITY CUSTOMERS AND TO THE PUBLIC;

4 (b) DETERMINES THAT THE DEVELOPMENT OF RENEWABLE
5 NATURAL GAS RESOURCES SHOULD BE ENCOURAGED TO SUPPORT A
6 SMOOTH TRANSITION TO A LOW-CARBON ENERGY ECONOMY IN COLORADO;
7 AND

8 (c) DECLARES THAT:

9 (I) NATURAL GAS UTILITIES CAN REDUCE EMISSIONS FROM THE
10 DIRECT USE OF NATURAL GAS BY PROCURING RENEWABLE NATURAL GAS
11 AND INVESTING IN RENEWABLE NATURAL GAS INFRASTRUCTURE;

12 (II) REGULATORY GUIDELINES FOR THE PROCUREMENT OF
13 RENEWABLE NATURAL GAS AND INVESTMENTS IN RENEWABLE NATURAL
14 GAS INFRASTRUCTURE SHOULD FACILITATE THESE PROCUREMENTS AND
15 INVESTMENTS WHILE ALSO PROTECTING COLORADO CONSUMERS; AND

16 (III) RENEWABLE NATURAL GAS SHOULD BE INCLUDED IN THE
17 BROADER SET OF LOW-CARBON RESOURCES THAT MAY LEVERAGE AND
18 DECARBONIZE THE EXISTING NATURAL GAS SYSTEM TO REDUCE
19 GREENHOUSE GAS EMISSIONS.

20 (2) AS USED IN THIS SECTION:

21 (a) "AUTOMATIC ADJUSTMENT CLAUSE" MEANS AN ANNUAL
22 MECHANISM THAT ALLOWS FOR RECOVERY OF INVESTMENT ON AN
23 UNLAGGED BASIS WITH A FORWARD-LOOKING REVENUE REQUIREMENT
24 CALCULATION WITH A TRUE-UP PROCESS.

25 (b) "BIOGAS" MEANS A MIXTURE OF CARBON DIOXIDE AND
26 HYDROCARBONS, PRIMARILY METHANE GAS, RELEASED FROM THE
27 BIOLOGICAL DECOMPOSITION OF ORGANIC MATERIALS.

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(c) "LARGE NATURAL GAS UTILITY" MEANS A NATURAL GAS UTILITY WITH TWO HUNDRED FIFTY THOUSAND OR MORE CUSTOMER ACCOUNTS IN COLORADO.

(d) "NATURAL GAS UTILITY" MEANS A PUBLIC UTILITY PROVIDING NATURAL GAS SERVICE TO CUSTOMERS; EXCEPT THAT THE TERM DOES NOT INCLUDE A MUNICIPALLY OWNED NATURAL GAS UTILITY.

(e) (I) "QUALIFIED INVESTMENT" MEANS ANY CAPITAL INVESTMENT IN RENEWABLE NATURAL GAS INFRASTRUCTURE INCURRED BY A NATURAL GAS UTILITY FOR THE PURPOSE OF PROVIDING NATURAL GAS SERVICE UNDER A RENEWABLE NATURAL GAS PROGRAM DESCRIBED IN SUBSECTION (4) OR (5) OF THIS SECTION.

(II) "QUALIFIED INVESTMENT" DOES NOT INCLUDE AN INVESTMENT IN A BIOGAS PRODUCTION PROJECT BY:

(A) A SINGLE LIVESTOCK OPERATION THAT PRODUCES MORE THAN TWO HUNDRED FIFTY STANDARD CUBIC FEET OF BIOGAS PER MINUTE; OR

(B) A SINGLE BIOGAS SOURCE THAT PRODUCES MORE THAN ONE THOUSAND STANDARD CUBIC FEET OF BIOGAS PER MINUTE.

(f) "RENEWABLE ENERGY SOURCES" MEANS:

(I) RENEWABLE ENERGY RESOURCES, AS DEFINED IN SECTION 40-2-124 (1)(a)(VII); AND

(II) BIOGAS.

(g) "RENEWABLE NATURAL GAS" MEANS ANY OF THE FOLLOWING PRODUCTS THAT ARE PROCESSED TO MEET PIPELINE QUALITY STANDARDS TRANSPORTATION FUEL-GRADE REQUIREMENTS OR ARE DELIVERED BY AN ALTERNATIVE ENERGY CARRIER.

(I) BIOGAS THAT IS BLENDED WITH, OR SUBSTITUTED FOR,

1 GEOLOGIC NATURAL GAS;
2 (II) HYDROGEN GAS DERIVED FROM RENEWABLE ENERGY
3 SOURCES; OR
4 (III) METHANE GAS DERIVED FROM ANY COMBINATION OF:
5 (A) BIOGAS;
6 (B) HYDROGEN GAS OR CARBON OXIDES DERIVED FROM
7 RENEWABLE ENERGY SOURCES;
8 (C) WASTE CARBON DIOXIDE;
9 (D) COALBED METHANE RESULTING FROM HUMAN ACTIVITY;
10 (E) NATURALLY OCCURRING COALBED DEPOSITS;
11 (F) A MUNICIPAL SOLID WASTE LANDFILL;
12 (G) WASTE TIRE OR MUNICIPAL SOLID WASTE PYROLYSIS;
13 (H) BIOGAS RECOVERY FROM MANURE MANAGEMENT SYSTEMS
14 AND ANAEROBIC DIGESTERS; OR
15 (I) THE DECOMPOSITION OF ORGANIC FOOD WASTE.
16 (h) "RENEWABLE NATURAL GAS INFRASTRUCTURE" MEANS ALL
17 EQUIPMENT AND FACILITIES FOR THE PRODUCTION, PROCESSING, PIPELINE
18 INTERCONNECTION, AND DISTRIBUTION OF RENEWABLE NATURAL GAS TO
19 BE FURNISHED TO COLORADO CUSTOMERS.
20 (i) "SMALL NATURAL GAS UTILITY" MEANS A NATURAL GAS
21 UTILITY WITH FEWER THAN TWO HUNDRED FIFTY THOUSAND CUSTOMER
22 ACCOUNTS IN COLORADO.
23 (3) (a) THE COMMISSION SHALL ADOPT BY RULE:
24 (I) A LARGE RENEWABLE NATURAL GAS PROGRAM FOR LARGE
25 NATURAL GAS UTILITIES PURSUANT TO SUBSECTION (4) OF THIS SECTION;
26 AND
27 (II) A SMALL RENEWABLE NATURAL GAS PROGRAM FOR SMALL

1 NATURAL GAS UTILITIES PURSUANT TO SUBSECTION (5) OF THIS SECTION.

2 (b) RULES ADOPTED BY THE COMMISSION UNDER THIS SECTION
3 MUST INCLUDE:

4 (I) REPORTING REQUIREMENTS UNDER THE LARGE RENEWABLE
5 NATURAL GAS PROGRAM AND THE SMALL RENEWABLE NATURAL GAS
6 PROGRAM;

7 (II) MODIFYING THE COMMISSION'S RULES FOR GAS COST
8 ADJUSTMENT AND PRUDENCE REVIEW TO:

9 (A) ALLOW RENEWABLE NATURAL GAS PURCHASES TO BE
10 INCLUDED IN A GAS COST ADJUSTMENT;

11 (B) CREATE A PRUDENCE REVIEW STANDARD FOR RENEWABLE
12 NATURAL GAS PURCHASES THAT WILL PROVIDE ASSURANCE THAT
13 RENEWABLE NATURAL GAS PURCHASES WILL BE RECOVERABLE UNDER THE
14 GAS COST ADJUSTMENT; AND

15 (C) REFLECT RENEWABLE NATURAL GAS CREDITS RECEIVED BY A
16 NATURAL GAS UTILITY AS A CREDIT AGAINST COSTS INCLUDED IN THAT
17 UTILITY'S GAS COST ADJUSTMENT; AND

18 (III) ESTABLISHING A PROCESS FOR NATURAL GAS UTILITIES TO
19 FULLY RECOVER PRUDENTLY INCURRED COSTS ASSOCIATED WITH THE
20 LARGE RENEWABLE NATURAL GAS PROGRAM AND THE SMALL RENEWABLE
21 NATURAL GAS PROGRAM.

22 (c) RULES ADOPTED BY THE COMMISSION UNDER THIS SUBSECTION
23 (3) MUST NOT PROHIBIT A LARGE NATURAL GAS UTILITY, A SMALL
24 NATURAL GAS UTILITY, OR AN AFFILIATED INTEREST OF EITHER, INCLUDING
25 THROUGH PARTNERSHIPS WITH OTHER ENTITIES, FROM MAKING A CAPITAL
26 INVESTMENT IN A RENEWABLE NATURAL GAS PRODUCTION PROJECT IF THE
27 AFFILIATED INTEREST IS NOT A PUBLIC UTILITY.

1 (4) (a) A LARGE NATURAL GAS UTILITY THAT PARTICIPATES IN THE
2 LARGE RENEWABLE NATURAL GAS PROGRAM ADOPTED BY RULE BY THE
3 COMMISSION PURSUANT TO SUBSECTION (3)(a)(I) OF THIS SECTION MAY
4 MAKE QUALIFIED INVESTMENTS AND PROCURE RENEWABLE NATURAL GAS
5 FROM THIRD PARTIES TO MEET THE FOLLOWING PORTFOLIO TARGETS FOR
6 THE PERCENTAGE OF GAS DELIVERED BY THE LARGE NATURAL GAS UTILITY
7 _____ TO RETAIL NATURAL GAS CUSTOMERS IN COLORADO THAT IS
8 RENEWABLE NATURAL GAS:

9 (I) BY JANUARY 1, 2025, AT LEAST FIVE PERCENT MUST BE
10 RENEWABLE NATURAL GAS;

11 (II) BY JANUARY 1, 2030, AT LEAST TEN PERCENT MUST BE
12 RENEWABLE NATURAL GAS; AND

13 (III) ON AND AFTER JANUARY 1, 2035, AT LEAST FIFTEEN PERCENT
14 MUST BE RENEWABLE NATURAL GAS.

15 (b) THE COMMISSION SHALL ADOPT RATE-MAKING MECHANISMS
16 THAT ENSURE THE RECOVERY OF ALL PRUDENTLY INCURRED COSTS THAT
17 CONTRIBUTE TO THE LARGE NATURAL GAS UTILITY'S MEETING THE
18 TARGETS SET FORTH IN SUBSECTION (4)(a) OF THIS SECTION. PURSUANT TO
19 THE RATE-MAKING MECHANISMS ADOPTED UNDER THIS SUBSECTION
20 (4)(b):

21 (I) QUALIFIED INVESTMENTS AND OPERATING COSTS ASSOCIATED
22 WITH QUALIFIED INVESTMENTS THAT CONTRIBUTE TO THE LARGE NATURAL
23 GAS UTILITY MEETING THE TARGETS SET FORTH IN SUBSECTION (4)(a) OF
24 THIS SECTION MAY BE RECOVERED BY MEANS OF AN AUTOMATIC
25 ADJUSTMENT CLAUSE; AND

26 (II) COSTS OF PROCURING RENEWABLE NATURAL GAS FROM THIRD
27 PARTIES THAT CONTRIBUTE TO THE LARGE NATURAL GAS UTILITY MEETING

1 THE TARGETS SET FORTH IN SUBSECTION (4)(a) OF THIS SECTION MAY BE
2 RECOVERED BY MEANS OF AN AUTOMATIC ADJUSTMENT CLAUSE OR
3 ANOTHER RECOVERY MECHANISM AUTHORIZED BY RULE.

4 (c) WHEN A LARGE NATURAL GAS UTILITY MAKES A QUALIFIED
5 INVESTMENT IN THE PRODUCTION OF RENEWABLE NATURAL GAS, THE
6 COSTS ASSOCIATED WITH THE QUALIFIED INVESTMENT INCLUDE THE COST
7 OF CAPITAL ESTABLISHED BY THE COMMISSION IN THE LARGE NATURAL
8 GAS UTILITY'S MOST RECENT GENERAL RATE CASE.

9 (d) BEFORE MAKING A QUALIFIED INVESTMENT IN BIOGAS
10 PRODUCTION THAT IS UPSTREAM OF CONDITIONING EQUIPMENT, PIPELINE
11 INTERCONNECTION, GAS CLEANING, OR ELECTRICITY GENERATION FROM
12 RENEWABLE NATURAL GAS, A LARGE NATURAL GAS UTILITY SHALL
13 ENGAGE IN A COMPETITIVE BIDDING PROCESS.

14 (e) IF THE LARGE NATURAL GAS UTILITY'S TOTAL INCREMENTAL
15 ANNUAL COST TO MEET THE TARGETS OF THE LARGE RENEWABLE NATURAL
16 GAS PROGRAM EXCEEDS TWO PERCENT OF THE LARGE NATURAL GAS
17 UTILITY'S TOTAL REVENUE REQUIREMENT FOR A PARTICULAR YEAR, THE
18 LARGE NATURAL GAS UTILITY SHALL NOT MAKE ADDITIONAL QUALIFIED
19 INVESTMENTS UNDER THE LARGE RENEWABLE NATURAL GAS PROGRAM
20 FOR THAT YEAR WITHOUT APPROVAL FROM THE COMMISSION.

21 (f) THE TOTAL INCREMENTAL ANNUAL COST TO MEET THE TARGETS
22 OF THE LARGE RENEWABLE NATURAL GAS PROGRAM MUST ACCOUNT FOR:

23 (I) ANY VALUE RECEIVED BY A LARGE NATURAL GAS UTILITY UPON
24 RESALE OF RENEWABLE NATURAL GAS, INCLUDING ANY ENVIRONMENTAL
25 CREDITS THAT THE RENEWABLE NATURAL GAS PRODUCER CHOOSES TO
26 INCLUDE WITH THE SALE OF THE RENEWABLE NATURAL GAS TO THE LARGE
27 NATURAL GAS UTILITY; AND

1 (II) ANY SAVINGS ACHIEVED THROUGH AVOIDANCE OF
2 CONVENTIONAL GAS PURCHASES OR DEVELOPMENT, SUCH AS AVOIDED
3 PIPELINE COSTS OR CARBON COSTS.

4 (5) (a) UPON A FILING BY A SMALL NATURAL GAS UTILITY TO
5 PARTICIPATE IN THE SMALL RENEWABLE NATURAL GAS PROGRAM ADOPTED
6 BY RULE BY THE COMMISSION UNDER SUBSECTION (3)(a)(II) OF THIS
7 SECTION, THE COMMISSION SHALL ESTABLISH A RATE CAP LIMITING THE
8 SMALL NATURAL GAS UTILITY'S COSTS OF PROCURING RENEWABLE
9 NATURAL GAS FROM THIRD PARTIES AND QUALIFIED INVESTMENTS IN
10 RENEWABLE NATURAL GAS INFRASTRUCTURE. THE RATE CAP MUST BE
11 EXPRESSED AS A PERCENTAGE OF THE SMALL NATURAL GAS UTILITY'S
12 TOTAL REVENUE REQUIREMENT AS APPROVED BY THE COMMISSION IN THE
13 SMALL NATURAL GAS UTILITY'S MOST RECENT GENERAL RATE CASE. FOR
14 THE PURPOSE OF ESTABLISHING A RATE CAP UNDER THIS SUBSECTION
15 (5)(a), THE COMMISSION SHALL ACCOUNT FOR:

16 (I) ANY VALUE RECEIVED BY THE SMALL NATURAL GAS UTILITY
17 UPON RESALE OF RENEWABLE NATURAL GAS, INCLUDING ANY
18 ENVIRONMENTAL CREDITS THAT THE RENEWABLE NATURAL GAS
19 PRODUCER CHOOSES TO INCLUDE WITH THE SALE OF RENEWABLE NATURAL
20 GAS TO THE SMALL NATURAL GAS UTILITY; AND

21 (II) ANY SAVINGS ACHIEVED THROUGH AVOIDANCE OF
22 CONVENTIONAL GAS PURCHASES OR DEVELOPMENT, SUCH AS AVOIDED
23 PIPELINE COSTS OR CARBON COSTS.

24 (b) (I) A FILING BY A SMALL NATURAL GAS UTILITY UNDER
25 SUBSECTION (5)(a) OF THIS SECTION MUST INCLUDE, BUT NEED NOT BE
26 LIMITED TO:

27 (A) A PROPOSAL TO PROCURE A TOTAL VOLUME OF RENEWABLE

1 NATURAL GAS OVER A SPECIFIC PERIOD; AND

2 (B) IDENTIFICATION OF THE QUALIFIED INVESTMENTS THAT THE
3 SMALL NATURAL GAS UTILITY MAY MAKE IN RENEWABLE NATURAL GAS
4 INFRASTRUCTURE.

5 (II) A SMALL NATURAL GAS UTILITY MAY FROM TIME TO TIME
6 REVISE THE FILING SUBMITTED TO THE COMMISSION UNDER THIS
7 SUBSECTION (5).

8 (c) COSTS PRUDENTLY INCURRED BY A SMALL NATURAL GAS
9 UTILITY PURSUANT TO A FILING SUBMITTED UNDER THIS SUBSECTION (5)
10 MAY BE RECOVERED EITHER IN THE UTILITY'S RATE BASE OR BY MEANS OF
11 AN AUTOMATIC ADJUSTMENT CLAUSE.

12 (d) WHEN A SMALL NATURAL GAS UTILITY MAKES A QUALIFIED
13 INVESTMENT IN THE PRODUCTION OF RENEWABLE NATURAL GAS, THE
14 COSTS ASSOCIATED WITH THE QUALIFIED INVESTMENT INCLUDE THE COST
15 OF CAPITAL ESTABLISHED BY THE COMMISSION IN THE SMALL NATURAL
16 GAS UTILITY'S MOST RECENT GENERAL RATE CASE.

17 (6) (a) THE COMMISSION SHALL ADOPT RULES PURSUANT TO
18 SUBSECTIONS (3) TO (5) OF THIS SECTION NO LATER THAN JULY 31, 2021.

19 (b) THE COMMISSION'S RULES MUST ESTABLISH A RENEWABLE
20 NATURAL GAS TRACKING AND VERIFICATION PROCESS TO PROVIDE LOCAL
21 DISTRIBUTION COMPANY END USERS WITH COMPLIANCE DATA. THE
22 PROCESS MUST ALLOW FOR AN ASSESSMENT OF THE TOTAL AMOUNT OF
23 RENEWABLE NATURAL GAS PRODUCED AND DISTRIBUTED, INCLUDING
24 BOTH:

25 (I) SYSTEM GAS THAT IS CONTRACTED FOR BY A LOCAL
26 DISTRIBUTION COMPANY; AND

27 (II) TRANSPORT GAS THAT IS CONTRACTED FOR BY AN END USER.

1 (c) THE COMMISSION'S RULES MUST ESTABLISH A PROGRAM OF
2 TRADEABLE RENEWABLE NATURAL GAS ENVIRONMENTAL ATTRIBUTE
3 CREDITS THAT MAY BE USED BY LARGE NATURAL GAS UTILITIES AND
4 SMALL NATURAL GAS UTILITIES FOR THE SOLE PURPOSE OF COMPLYING
5 WITH THIS SECTION. THE COMMISSION SHALL CONSULT WITH THE
6 DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT IN THE DESIGN OF
7 THE CREDIT TRADING PROGRAM. IN NO EVENT SHALL THE COMMISSION
8 ALLOW ANY RENEWABLE NATURAL GAS ENVIRONMENTAL ATTRIBUTE
9 CREDITS GENERATED PURSUANT TO THE CREDIT TRADING PROGRAM TO BE
10 USED FOR ANY PURPOSE OTHER THAN COMPLIANCE WITH THIS SECTION.

11 (7) A MUNICIPALLY OWNED NATURAL GAS UTILITY MAY
12 IMPLEMENT A RENEWABLE NATURAL GAS PROGRAM SIMILAR TO THE
13 PROGRAMS DESCRIBED IN THIS SECTION AND, IF SO, SHALL SUBMIT A
14 STATEMENT TO THE COMMISSION TO DEMONSTRATE THAT THE UTILITY HAS
15 DONE SO. ANY SUCH STATEMENT IS FOR INFORMATIONAL PURPOSES ONLY
16 AND IS NOT SUBJECT TO APPROVAL BY THE COMMISSION.

17 **SECTION 2. Appropriation.** For the 2020-21 state fiscal year,
18 \$83,555 is appropriated to the department of regulatory agencies for use
19 by the public utilities commission. This appropriation is from the fixed
20 utilities cash fund created in section 40-2-114 (1)(b)(II), C.R.S. To
21 implement this act, the commission may use this appropriation as follows:

22 (a) \$76,275 for personal services, which amount is based on an
23 assumption that the commission will require an additional 0.8 FTE; and

24 (b) \$7,280 for operating expenses.

25 **SECTION 3. Act subject to petition - effective date -**
26 **applicability.** (1) This act takes effect at 12:01 a.m. on the day following
27 the expiration of the ninety-day period after final adjournment of the

1 general assembly (August 5, 2020, if adjournment sine die is on May 6,
2 2020); except that, if a referendum petition is filed pursuant to section 1
3 (3) of article V of the state constitution against this act or an item, section,
4 or part of this act within such period, then the act, item, section, or part
5 will not take effect unless approved by the people at the general election
6 to be held in November 2020 and, in such case, will take effect on the
7 date of the official declaration of the vote thereon by the governor.

8 (2) This act applies to conduct occurring on or after the applicable
9 effective date of this act.